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Efficiency in business and what it must stand for

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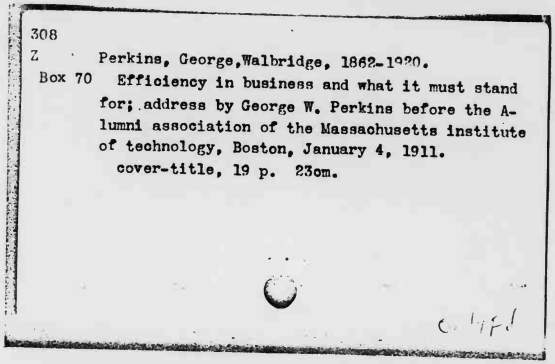

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EFFICIENCY IN BUSINESS

AND WHAT IT MUST STAND FOR

ADDRESS BY

GEORGE W. PERKINS

BEFORE

THE ALUMNI ASSOCIATION OF THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY

BOSTON, JANUARY 4, 1911

16 March, 1920 - C.R.W.

Efficiency in Business

And What It Must Stand For.

Efficiency in business, to the average mind, has stood for economy in production, effectiveness in selling, and shrewdness in administration; but with the rapidly changing conditions of our time efficiency that is real, that is enduring, must hereafter stand for something broader than this. It must stand not only for close business management, the saving of the waste, and a keen insight into business conditions and tendencies throughout the world, but as well for a broad spirit of co-operation, a lively regard for public opinion and, above all, an honest, open and square method of business dealing.

The world has moved very fast in the last quarter of a century. Great discoveries, great inventions, have made possible, have compelled, the adoption of new methods in business, and these have crowded upon one another with such rapidity that it is scarcely a matter of wonder that there has been lacking the amount of thought necessary to properly analyze the causes that have brought about the business conditions existing in our country to-day.

The changes in business methods in the United States, within the lifetime of nearly every man in

this room, have amounted almost to a business revolution. Scarcely any line of business is conducted to-day, or could be conducted to-day, along the same lines that it was twenty-five years ago. One would think, from much of the talk indulged in during recent years that the great corporations of to-day, for example, have been created solely to serve the purposes of a comparatively few men; that they could just as well have been created at any other time in the world's history if the same type of men had ever before existed. Nothing is more fallacious. Doubtless selfish men have taken improper advantage here and there of the new conditions brought about through the inventions and discoveries of the age, but these men could not have begun to do what they have done had it not been for these same inventions and discoveries—inventions which, in themselves, have been acclaimed and applauded as great achievements. We could have no large business concerns and we should, therefore, have none of the troubles that beset us to-day as the result of these concerns, if with one sweep of the hand certain inventions and discoveries of our time could be wiped out of existence and we could be put back into the condition of lack of intercommunication under which business was conducted by our forefathers. It is the ocean greyhound, the 20th Century Limited, the telegraph, the long-distance telephone, the wireless, that have brought us where we are. The inventors of these methods of intercommunication are the men who are primarily responsible for our problems of to-day. One of the first requisites for doing business is the ability to communicate with people. In the olden days of transportation of thought and commodity the merchant could only communicate with a very small number of people; therefore, he could do only a small business and he needed only a small organization and a small capital. To-day any man in any line of business can communicate with any number of people he desires. With electricity he can flash his offer to sell around the world. Every man in any given line of business, no matter where he is located, has but to have the desire to offer his wares for sale anywhere and he can do it. Whether or not he can do it successfully, profitably, either to himself or the labor he employs, or to the advantage of the community he desires to enter, may be another question, but he can at least attempt it, for intercommunication throughout the civilized world is now complete.

This is a condition, not a theory. What are we going to do about it? What are we going to do with it? It is the problem of the day, and this problem affects one and all—capital, labor, the public, the government. On its solution depends not only the prosperity of the men and women of to-day, but those of to-morrow.

At the present moment the executive branch of our government is bending every effort to accomplish the construction of the Panama Canal, and we are filled with pride at the prospect that this

new channel of commerce opens up to us. If this canal means anything, it means the placing of the United States in the very center of the path of commerce in the future. While the executive branch is engaged in this splendid undertaking we are waiting with bated breath for the Supreme Court of our country to decide, in effect, whether we shall, as a country, do business on a wholesale or retail plan; and our Congress refuses to put a single ship of commerce on the seas.

We are not agreed, and a house divided against itself is bound to fall. Until we adjust our own differences and decide what are to be our business standards, our business methods, we cannot hope for that efficiency and that material prosperity to which the natural resources of our country entitle us; and it is just as important to our foreign trade relations as it is to our domestic trade relations that we settle with all possible dispatch the question of how the United States is going to do business. We must at least have certainty.

Normal conditions now are vastly different from normal conditions in the past. When a man can sit at his desk in Boston and talk to a man who is at his desk in Chicago, and close a business transaction without either man leaving his chair, each recognizing the other's voice, what matters it that there are three or four States separating their bodies? Their minds have met more quickly than could have been the case had they been in adjoining buildings twenty-five years ago. Electricity has

emancipated the mind from the body and given it wings. It is the mind—not the body—that does business. Think of it! By placing a wire to one's ear the mind through the voice can fly to a distant city, do business there and return, and immediately go off to another city, do business there and return, and do this as many times in a day as occasion requires.

These marvelous changes apply to all phases of life. The farmer, only a few years ago, was isolated on his farm. He raised his produce and hauled it to the nearest town without knowing, when he left his farm, what he could get for it, being more or less at the mercy of the storekeeper when he reached his market. Now the Free Rural Delivery brings him his daily paper, containing all the market quotations at home and abroad. In place of killing a dozen chickens, taking them to town by team, asking the storekeeper to buy them, and being forced to accept what the storekeeper is willing to give, he stays at home until the storekeeper calls him up by telephone and asks if he will do the storekeeper the favor of selling him a dozen chickens; and the farmer knows what price he is going to get before he kills. Having killed the chickens, he whisks them into town on a trolley car or in an automobile—thus saving, first, a long journey with a team; second, offering his articles around town and taking whatever price for them he can get; and, third, considerable time for work on the farm. How

greatly has electricity enhanced the efficiency of the former!

What a complete change, what an absolute reversal of the order of things in a handful of years! The attempt by humans to make laws that will nullify conditions that have come about through the conquest of the mysteries of nature will never succeed. One might just as well attempt to legislate against lightning. If this country does not want business done with the instruments that inventors and discoverers have placed in the hands of business men, then eradicate the causes, not the results. Begin by electrocuting Edison and Marconi; apprehend the Wright brothers and put them behind the bars!

A few years ago, largely owing to new instruments for the conduct of business, a commercial war was raging, the like of which was never before known in business affairs. In war it is not the long-range fighting that costs so dearly in human life; it is the struggle in the trenches. When the armies are fighting at long range no one can tell when the battle will be over, nor who will win, nor what the loss of life will be; but as the armies draw closer and closer together, the battle becomes fiercer, the destruction more deadly. When the men finally enter the trenches, the destruction is frightful and the end is near. When business men in New York were competing with business men in Chicago, in the days of the stage-coach, competition between the two cities did not do so much harm; but with

the advent of the fast trains, the telegraph and the telephone, they got into each other's trenches, and the competition was indeed deadly. This is what has been happening in business in the United States, largely owing to the agencies of steam and electricity, which have annihilated distance and made the world so small.

Some of us, believing that some substitute must be found for the ruthless competition that is so deadly in close-range fighting in business, have been endeavoring to build a bridge from old methods to new, from barbarous competition to humane co-operation. Whether or not we shall succeed and the structure will safely carry, only time can tell. The structure may break, through faulty construction, or because vandals cut some of the strands. In either case many would be precipitated into the raging torrents; but, assuming the continuance in use of the instruments with which business is now being conducted, of one thing we can be certain—the world must, the world will, get across such a bridge, by peaceable and safe methods maybe, but in any event and at all hazards it will get across. For how can we applaud the constant flooding of the world with inventions and devices for drawing it closer and closer together in business and social relations, and at the same time condemn the movement to get away from ruthless competition and adopt more co-operative methods?

Competition under present methods of life is too destructive to be tolerated. Co-operation must be-

come the order of the day. It is the only method that will provide an efficiency such as will answer future conditions of life; and the nation that first recognizes this and works out the problem will be the nation to lead in the future. Many of us—yes, nearly all of us—who are now in middle life, were brought up to believe the old adage that "Competition is the life of trade." Competition in the long ago doubtless did stimulate trade, but it was almost always to the serious misfortune of one or more individuals. A highly developed competitive system gave ruinously low prices at one time and unwarrantedly high prices at another time. When the low prices prevailed labor was sorely hurt; when the high prices prevailed the public paid the bills. Competition is much like the robbing of Peter to pay Paul; what one gains the other loses. In so far as competition represents the survival of the fittest, it very often means the survival of the strongest; in other words, that "might makes right." In this day of close intercommunication, methods that are harmful and practices that are injurious injure many more people than they did long ago.

This past Fall the American Iron and Steel Institute invited representatives of the Iron and Steel Institutes of Europe to come here as its guests. Over twenty-five of such representatives came and a number of days were spent in conferences in this country. The question of competition *versus* co-operation throughout the world was dwelt on at great length by representatives from all nations.

Toward the close of the meetings the suggestion was made that an International Institute be organized, and as this met with favor another suggestion was made that a seal or emblem of some sort be designed that could be used by the International Institute. Several designs were submitted. Finally one was offered that showed in the center of the sketch a number of swords and bayonets thrust into the ground and others being made into ploughshares. At the top were the words, "Right is might," and at the bottom was the one word, "Co-operation." It was surprising to see how quickly this emblem appealed to every man, no matter from what country; and it was clearly because each man, being a leader in his industry in his own country, had become keenly alive to the fact that by the use of the cable, the telephone and the fast ships, he either had to fight fast and furiously and at great risk all over the world, or he had to do business on a "live and let live" basis. Only a few years ago if these same men had met, it is safe to say that many of them, if asked for a design for a seal for an International Steel Association, would have said that the wording should be, "Might is right. Competition."

But if we are to have co-operation in place of competition we can only have the sort that is real, that permeates everywhere—co-operation between manager and stockholders, between manager and labor, between manager and public, between manager and government. Co-operation that gives better oppor-

tunities to managers to enrich themselves and does nothing more will no longer endure. Co-operation that increases profits to stockholders but does not improve the condition of labor cannot endure. Co-operation that means substantial benefits to stockholders and labor, but ignores the rights of the public, will ultimately fail. This is so because the masses have been taught to think. In our country the State and wealthy individuals have vied with one another in spending money to educate the masses, to teach them to think. Having done this, we must expect to answer the questions that such teachings naturally prompt. You cannot spend a million dollars on the education of one generation without having a million questions raised by the next generation.

As a result of the educational process that has been going on, one of the questions raised by the present generation is, "What is the proper division of profits as between capital and labor?" This question is being mistaken in many quarters for a demand for higher wages; but the question can never be answered by a mere increase in wages or even by frequent increases in wages. The increasing intelligence of the people, which the State and men of wealth have brought about through their contributions for educational purposes, has raised the question, not as to the amount a man is paid for his services, but as to whether or not the amount he is paid, be it little or much, is his fair proportion of what is made in the business of which he is a

part. We see many instances in life where manual labor is performed by people for small pay, and yet willingly performed because they know that what they are paid is all that the calling can rightfully stand.

When labor is in serious doubt or is practically certain that it is not getting its fair proportion, an increase in wage is too much like a bribe, and, in many cases, simply arouses suspicion and thus adds fuel to the flame. If we are going to get away from ruinous competition to a co-operative or "live and let live" basis, we must co-operate all along the line, and to co-operate between capital and labor there must be a show-down as to what the business is doing; there must be publicity and frankness, to the end that the labor part of the concern may know what the capital is doing and making; and my experience has been that this, in place of being a dangerous policy for a concern to adopt, is the only safe policy, and that, once adopted—adopted honestly and sincerely,—it goes far toward adjusting many differences that have arisen.

The day of the secretive method, of getting away with improper profits, is gone; but this does not mean that the day of substantial profit to capital is gone. Broadly speaking, I have come to believe that the following principle should be adopted in the organization of American business concerns, viz.: The organization of men managing any given business, including all workers, should be paid their salaries and wages for rendering service of a kind

that would earn the amount of money necessary to keep the business rehabilitated, to pay interest on any bonded debt there might be, and dividends on preferred shares of stock, when conservatively issued. If this organization of men, brain workers and hand workers together, should develop so high a type of efficiency that their efforts produce more profits for the concern than is necessary for these purposes, such profits would naturally go to the common stockholders; and at this point the organization of men who carry on the business should share with the common stockholders this extra profit earned; and the basis of this sharing should be with regard to the original cash value of the common stock when the company was organized, the nature of the service performed, the difficulties involved in the business venture, length of service, etc. Broadly speaking, this basis of profit sharing would have enormous advantages all around. The very fact that the organization was employed under such a contract by the stockholders would furnish to the bondholders of such a company the strongest possible probability of receiving the interest regularly on their bonds, since the organization would constantly have as its goal the object of earning something on the common stock; and this in itself would make it quite certain that the interest on the bonds would be earned, if such a thing were at all possible.

Men worthy to be called men, in whatever calling they may be, do not want something for nothing.

The gratuity at the end of the year, the Christmas present, when it comes more or less unexpectedly and as a gift, does not give real satisfaction to the mind of the worker. He is apt to feel that it is but a small fraction of what is justly due him, and so it serves the opposite purpose of that intended—it embitters his feeling instead of strengthening his loyalty. Besides, money received in this way is too often spent for some transient pleasure; it is seldom saved. A definite statement at the beginning of a year to a body of men engaged in any given business, as to what is expected of them during that year, coupled with the promise that if certain results are accomplished each man will have a share in that accomplishment in proportion, as nearly as possible, to what he has contributed, sets a goal that can be intelligently striven for. If success attends such co-operative effort and profits are earned, the men understand how they were earned and they rejoice, not only in the larger income they receive, but as well in having achieved success. And where is the man, whatever his sphere of life, who does not enjoy the tingle that comes with success?

So far as possible, the extra compensation earned under these conditions should not be distributed in cash, but in stock, or, if the business be a small one, in a certificate of interest of some kind that keeps the man's profits invested in the business in which he is engaged. This accomplishes two very important things: First, it gives the man a direct and pecuniary interest in the business and con-

vinces him that he is a partner in fact; and there are a thousand and one ways in which he will become more efficient to the business because of this feeling. Second, it induces him to save, in place of spending this extra compensation on something unnecessary, or of using it to increase the cost of his living, or of putting it into some outside investment that will probably cause him worry and distract his attention from his business. Nothing so tends to increase efficiency in an organization of men as the stimulating of a real, lively interest on the part of each individual in his daily task.

Profit sharing that is real, that is practical, is far from bonus giving. Profit sharing should not only give better and more equitable compensation, but should teach, foster and provide a means for saving. A constantly increasing wage scale means a constantly increasing living scale and a larger purchasing power for commodities, which means higher prices for such commodities. Profit sharing should mean profit saving, and this accomplished would mean many men having many dollars saved and to their credit, in place of three or four men in the same business having many dollars to their credit. Accumulated wealth is an absolute necessity for the development and welfare of any nation, but it can be had just as well in groups as in units.

Our large business corporations have been popularly described as trusts, and in one sense of the word the term is more aptly applied to them than many of us have in the past taken thought to

realize. They are organizations to which, on the one hand, the public has entrusted its money and to which, on the other hand, labor has entrusted its welfare; and the managers of great corporations, therefore, assume in a very real sense a trusteeship in respect to the public at large—both the public which invests its money and the public which is employed as labor. It is largely because the managers of corporations have, in many instances, failed to appreciate that they are indeed trustees and have often acted as they would had they been partners in a firm, that we are to-day confronted with the corporation problem as it is generally viewed, and that some corporations are regarded with ill favor in quarters where they should be regarded with approval.

I believe that of late there has been a development of the business conscience—a growing appreciation on the part of corporation managers of their trusteeship; and when the giant corporation stands for public co-operation, and each of the elements of which the corporation is made up realizes what it owes as a duty to the others, we shall be far on the road to a solution of our problem. The duty of a corporation to its stockholders is no more sacred than its duty to its employees, and to neither is its duty more sacred than to the public at large. The inevitable conclusion from this view is that corporations should rightfully be subjected to governmental supervision. I, for one, firmly believe in federal regulation and that publicity should be

the main stem in the system of governmental supervision. Enforce rigid and thorough publicity and the evils of corporation management will largely disappear; for evils, once fully known, cannot persist in the face of public sentiment. In an address I delivered at Columbia College about three years ago I dwelt at length on this phase of our corporation problems.

A large percentage of the mistakes of corporate management have occurred because managers have failed to realize that they were not in business as individuals, but were working for other people, whom they were in honor bound to honestly and faithfully serve; and further, that they owed a duty to the general public and, in the long run, could best serve themselves and their stockholders by recognizing that duty and respecting it.

It is not sufficient in corporate management to do the best one can from day to day. Corporate responsibility extends beyond to-day. It is the foresight, the planning ahead, the putting the house in order for the storms of the future, that are the true measure not only of the best and highest stewardship, but as truly of the highest order of managerial ability itself.

We can back and fill, we can talk and scold, we can threaten and abuse and prophesy dire things, yet there will be but one ultimate result, viz., progress and growth. We can delay the onward movement for a time; we can make it very costly, but nevertheless the movement will be onward and

co-operation will follow competition just as surely as the electric light followed the tallow candle.

In the very beginning the universe was organized, and all that man has done in society, in the church, and is now trying to do in business, and all that he can do in the centuries to come, can never bring to pass so complete a form of organization, so vast a trust, so centralized a form of control as passes before our eyes each twenty-four hours of our lives as we contemplate that all-including system of organization called the universe. It does not require a very vivid imagination to picture the waste, the destruction, the chaos that would follow if there were not perfect organization, perfect co-operation, perfect regulation, perfect control in the affairs of the universe. How should we get on, for example, if there were incessant competition between day and night, or a constant struggle for supremacy between the seasons? Does any one for a moment think that he would prefer such a condition to the co-operation that now exists through all the affairs of the universe? Organization, co-operation, regulation, control, being the all-permeating principles of the universe, the presumption is in favor of them wherever we find them or the possibility of their coming into play.

The foundations of our nation were laid here in New England—not by professional politicians, but by men of affairs who considered it an honor and a privilege to perform public service. The foundations they laid remain sound and good, but the

superstructures, political and industrial, which have been built upon the foundations, like the early railways, have followed the line of least resistance. They answered the convenience and, to a great extent, the needs of a past generation; but they have become unsuited to the changed conditions of today. Evolution and education going hand in hand have wrought the great change. The wastefulness and the glaring abuses of long-accustomed methods in politics and business have become intolerable. Regrading and rebuilding have become a necessity. There must be a straightening of the ways, a releveling of the rough places. The process thus far has been unpleasant, disturbing, costly, perhaps dangerous; but it is not only necessary—it is inevitable—a process of life which is bound to push forward. And its result will be good or bad, a bane or a blessing, not altogether according to the guidance and leadership which it receives, but mainly according to the character of the life that is in the nation; for in this land of ours the people are the legitimate rulers. Moreover, in every emergency the people make their power felt; they assume responsibilities; they are assuming new responsibilities now; you can feel it in the air; and the result of the reconstruction now beginning will be, not as individuals or classes might wish it to be, but such as will really represent the collective mind of the whole people.

My contact with many different classes of people in many different walks of life has convinced me

that there never was a time in the history of our country when the solution of great problems could be so safely left to the people, provided the problems are fairly and fully presented. The danger lies in lack of information, lack of discussion, lack of disinterested leaders who are thoroughly informed and who have the courage of their convictions. Our problems being of the most practical sort cannot be successfully solved by theorists or politicians. What we must now have is constructive work—work by men who know what the problems are and who are patriotic enough to give their time and their talents to working them out for the best and ultimate good of one and all.

The men in this room are typical representatives of their respective communities. Each one of you owes it to himself, to his kin, to his country, to follow the example of his forefathers by giving to public questions a certain proportion of his earnest thought and action. At no time since the war of the Rebellion has such service as this been more necessary, and on the quality and quantity of it here, there and everywhere throughout our land will depend beyond question the right solution of our present problems and the future prosperity and happiness of our people.

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